

Asset Classification Summary

In order to adequately identify and disclose credit risk on the balance sheet, assets exhibiting weakness were classified as Substandard, Doubtful, or Loss according to their level of risk. These risk categories are defined as:

- **Substandard:** An asset classified Substandard is protected inadequately by the repayment capacity, equity, and/or collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses which jeopardize the liquidation of the debt. They are characterized by the distinct possibility the institution will sustain some loss if the deficiencies are not corrected.
- **Doubtful:** An asset classified Doubtful has all the weaknesses inherent in one classified Substandard with additional weaknesses which make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- **Loss:** An asset, or portion thereof, classified Loss is considered uncollectible, and of such little value its continuance on the books is not warranted. This classification does not imply the asset has absolutely no recovery or salvage value; rather, it is not practical or desirable to defer writing off an essentially worthless asset (or portion thereof), even though partial recovery may occur in the future.

Individual assets were reviewed for the level of delinquency, type, collateral pledged (if applicable), and date and amount of the last payment received. The review of assets resulted in the following classifications:

- Substandard: \$**xxx** or **xx**% of net worth.
- Doubtful: \$**xxx** or **xx**% of net worth.
- Loss: \$**xxx** or **xx**% of net worth.

A total of \$**XXX** of assets were classified as substandard or loss, equating to **XX**% of net worth. The Asset Classification indicates credit risk poses **XXX** risk to net worth. Management must closely monitor substandard assets and take action to minimize losses.